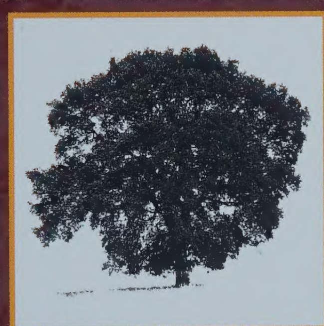
ANNUAL REPORT

Domco's 125th...



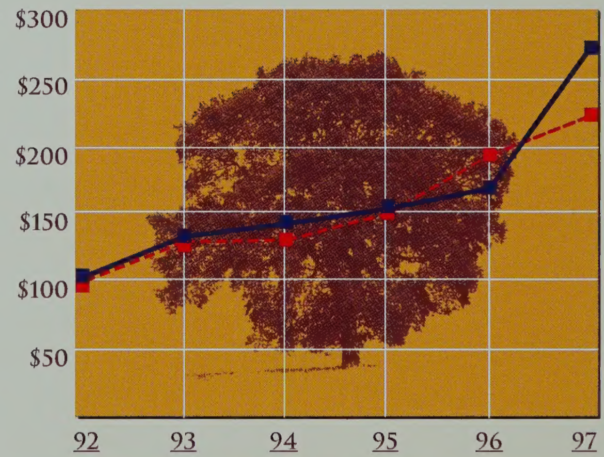
DOMCO

1997

PERFORMANCE GRAPH

The performance graph presented below illustrates the cumulative total return for a holder of Common Shares of the Corporation compared with the Toronto Stock Exchange TSE 300 Total Return Index.

The year-end values of each investment are based on share appreciation plus dividends paid in cash. The calculations exclude brokerage fees and taxes. Total shareholder returns from each investment can be calculated from the year-end investment values shown below the graph.



CUMULATIVE TOTAL RETURNS

(Value of $100 invested on December 31, 1992)

The Corporation
TSE 300 Index

DECEMBER	1993	1994	1995	1996	1997
The Corporation	$133.33	$144.44	$155.56	$170.37	$274.07
TSE 300 Total Return Index	$132.55	$132.31	$151.54	$194.49	$223.62

CORPORATE PROFILE

Domco Inc. is a leading North American manufacturer of vinyl floorcoverings for the commercial and residential markets.

Domco's products are distributed to North American retailers mainly through the Corporation's division, Domcor, and by more than 90 independent distributors.

Domco places a high value on the expertise and dedication of its over 1,300 employees. The quality of its people is key to the Corporation's continued growth and its ability to provide superior products and services at competitive prices.

Domco has plants in Farnham, Quebec, in Houston, Texas and in Florence, Alabama. Its head office is located in Farnham, and its Sales and Marketing administrative Centre is based in Florence.

DOMCO

125 years of leadership in floor covering

Domco was founded in 1872 by eleven Canadian investors, as the Dominion Oil Cloth Company. Its first product was a floor covering made of jute fibre covered with coats of paint.

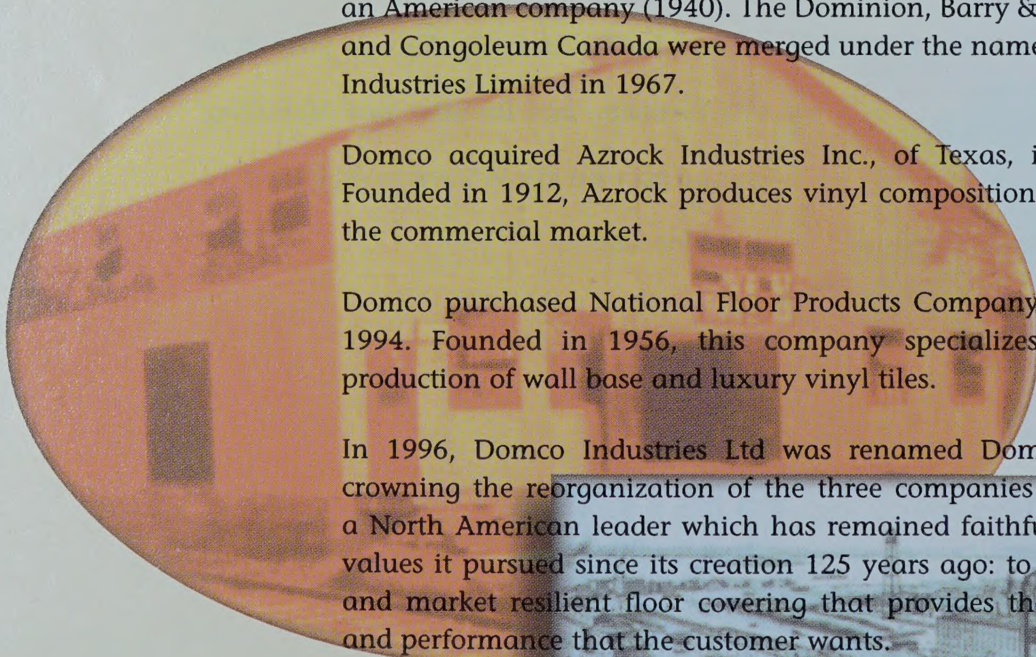
"The Dominion," as it was long known, very rapidly established itself as a leader in the floor covering industry. Driven constantly by the need to stay at the leading edge, it invested massively in rapid growth, expansion and modernization of its product line, and in the equipment and technology needed for the highest efficiency.

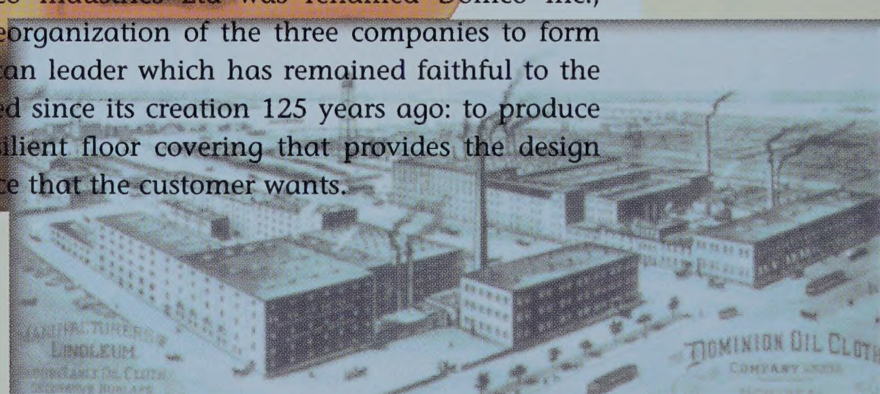
World-renowned from the Nineteen Twenties for the quality of its linoleums and printed felt base coverings, the Dominion also advanced through several selected acquisitions, notably Barry & Staines Canada Limited, subsidiary of a British company (1934), and Congoleum Canada Limited, subsidiary of an American company (1940). The Dominion, Barry & Staines, and Congoleum Canada were merged under the name Domco Industries Limited in 1967.

Domco acquired Azrock Industries Inc., of Texas, in 1991. Founded in 1912, Azrock produces vinyl composition tiles for the commercial market.

Domco purchased National Floor Products Company, Inc. in 1994. Founded in 1956, this company specializes in the production of wall base and luxury vinyl tiles.

In 1996, Domco Industries Ltd was renamed Domco Inc., crowning the reorganization of the three companies to form a North American leader which has remained faithful to the values it pursued since its creation 125 years ago: to produce and market resilient floor covering that provides the design and performance that the customer wants.





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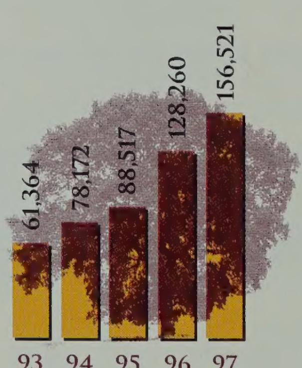
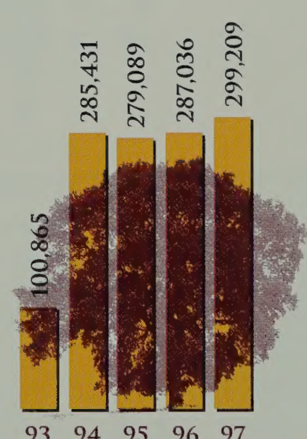
FINANCIAL HIGHLIGHTS

[thousands of dollars, except per share amounts]
December 31

	1997	**1996**	**1995**	**1994**	**1993**
Revenues	$ 350,321	$ 328,422	$ 316,633	$ 279,789	$ 188,299
Gross margin	126,723	128,136	127,818	114,220	73,148
Gain on claim settlement	-	-	-	2,200	-
Restructuring costs	-	-	(2,427)	(1,680)	-
Income before taxes	28,499	28,065	25,245	30,660	17,298
Net income	20,362	19,573	15,828	18,500	11,108
Basic earnings per share	1.27	1.39	1.15	1.35	0.81
Fully diluted earnings per share	1.09	1.21	1.06	1.35	0.81
Working capital	60,253	54,521	63,391	51,065	42,307
Shareholders' equity	156,521	128,260	88,517	78,172	61,364
Book value per share	9.61	8.06	6.44	5.69	4.47
Dividend per share	0.275	0.275	0.275	0.25	0.225
Total assets	$ 299,209	$ 287,036	$ 279,089	$ 285,431	$ 100,865



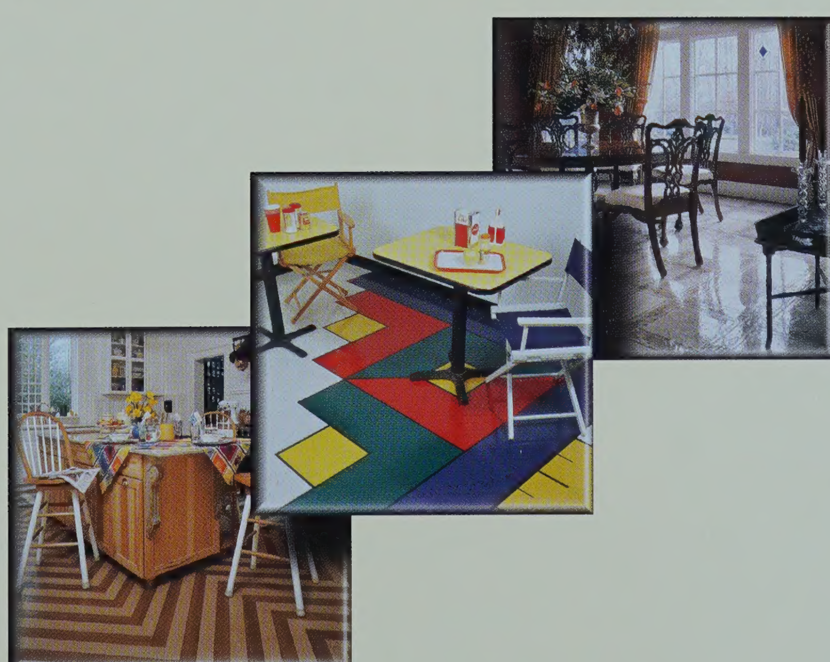
Shareholders' equity
($ Thousands)

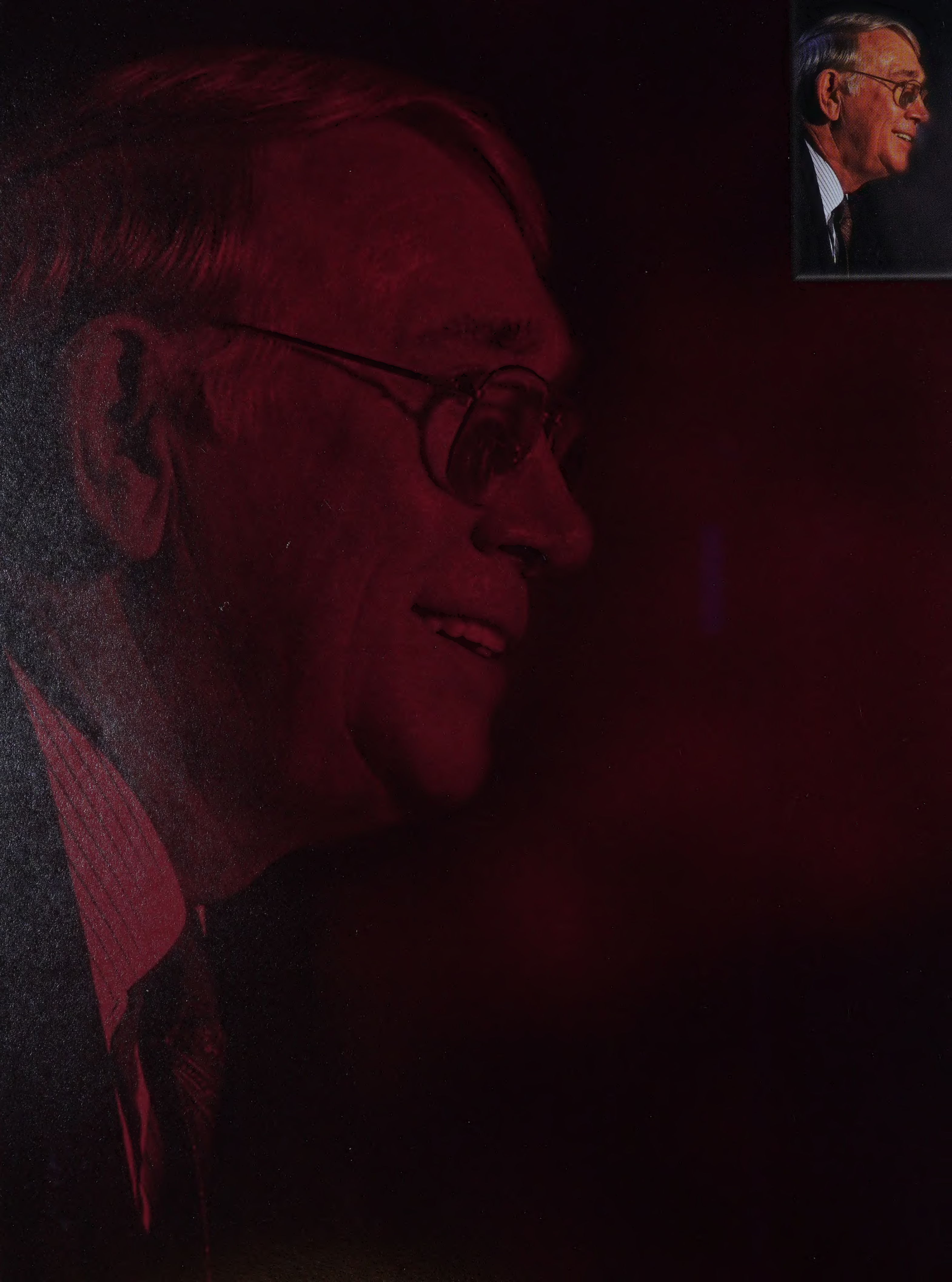


Total assets
($ Thousands)

HIGHLIGHTS OF 1997

- Net income of $20.4 M.
- $1.27 Basic earnings per share.
- Domco has consolidated its operations as a full-line resilient flooring manufacturer.
- Efficiencies are enhanced by aligning three product distribution systems into one that covers all of Canada and the United States.
- ISO 9001 rating of management systems is earned at the Farnham, Quebec, manufacturing facility, an industry first.
- Implementation of new information systems for Year 2000 is well under way.





MESSAGE TO SHAREHOLDERS

Domco prospered in 1997 despite a highly competitive business environment. We achieved this result through internal growth and cost reductions, and by taking full advantage of the opportunities created by our long-term growth strategy. Domco was able to increase sales through cross-selling, while the establishment of five new Master Distributors extended Domco's geographical sales reach throughout the United States. Costs were controlled through continuing consolidation, while process and equipment upgrades in Farnham, Quebec and Florence, Alabama brought major savings and improvements. The elements are in place for sustained growth in sales and earnings.

Domco earned net income of $20.4 M compared to 1996 results of $19.6 M. Net income per share was $1.27, compared to $1.39 for 1996.

The business environment in 1997 was marked most of all by fierce competition and pressure on prices and margins. Domco vigorously implemented process and equipment improvements in its plants to sustain margins and compete effectively. Product improvements included a new wear layer for Domco's sheet vinyl. The Nafco product line was filled out with the introduction of two luxury vinyl planks, Augusta Plank and Crestview Plank. Linosom™ Linoleum, produced by Sommer, was added to the Azrock line.

Key regions came into the Corporation's network of Master Distributors, and integrated sales aids broke new ground for cross-selling in retail showrooms.

As a result, Domco once again was able to post industry-leading growth. Sales rose to $350 M, up 6.7%. Sales of Azrock commercial tile continued to exceed projections, increasing by 5.6% in 1997, and other product lines reported significant advances.

In general, Domco continued to emphasize high standards in quality control, installer training and customer service, a policy that has led to high customer satisfaction ratings, and that has reinforced the Corporation's position in the marketplace as a source of price-competitive high quality products.

Domco's long-term strategy has been to distinguish our Corporation with a wider product range and market reach throughout Canada and the United States. Through acquisition and internal growth, we have actively sought and gained market segment share. Domco is currently the third largest resilient flooring manufacturer in North America, and its growth outpaces the industry.

Domco employees have helped to sustain the momentum. In 1997, the Corporation negotiated 5-year labour contracts with its hourly employees at Farnham and Florence. In Farnham, the new agreement reflected the reality that distributors now depend on the manufacturer to provide "just in time" shipments. It is now possible for Domco to maintain operations during the summer vacation period.

Takeover bid by Armstrong World Industries, Inc. and related matters

On May 28, 1997, the French company Sommer Allibert, Domco's majority shareholder, and the German company Tarkett AG announced the merger of their worldwide flooring manufacturing activities. As part of this announcement, the two companies indicated their intention to combine the activities of Domco and Tarkett U.S.

However, Armstrong World Industries, Inc. ("Armstrong") has attempted to

block this transaction. Its strategy appears to have two fronts: a public offer to purchase all the outstanding securities of Domco Inc. and litigation.

On one front, on June 16, Armstrong launched its offer to purchase all of the securities of Domco in circulation. Shortly afterward, Sommer Allibert, which held 69.2% of the shares of Domco (57.1% after dilution), announced that it did not intend to sell its shares under this offer. Launched at $23 per share, and conditional upon the tender of at least 66 2/3% of all the outstanding shares, on a fully diluted basis, the substance of the offer has been modified and it has been extended several times. Notably, on July 2, 1997, Armstrong lowered its minimal deposit condition from 66 2/3% to 51% of securities. On the same day, Armstrong proposed to subscribe for that number of newly issued shares which, together with the Domco securities tendered under the offer, would give Armstrong ownership of 51% of Domco shares on a fully diluted basis. On August 5, 1997, the Board of Directors announced that Domco would not issue new shares pursuant to Armstrong's subscription offer.

At the time of this writing, the offer stipulated a price of $26.50 per share, conditional on the deposit of at least 51% of the shares under the offer, fully diluted, and expires May 29, 1998. The Board of Directors has recommended to shareholders that they not deposit their shares under this Offer.

On the other front, Armstrong has pursued a series of actions before courts in Canada and the United States, and before securities commissions in Quebec and Ontario. On June 9, before even formally launching its offer to purchase, Armstrong sought an injunction against Sommer Allibert in the U.S. Federal Court in Pennsylvania seeking, among other things, to prevent the conclusion of the Sommer-Tarkett transaction. Domco is not party to this action. On June 23, 1997, Armstrong launched a suit

in Ontario against Domco Directors and Sommer Allibert seeking, among other things, to force them to reconsider the Armstrong offer. Also on June 23, Armstrong went before the Quebec and Ontario securities commissions to seek rulings that would, notably, declare the Sommer-Tarkett transaction to be an illegal takeover of Domco.

Each of these legal or paralegal actions has followed its course.

The Ontario Court dismissed Armstrong's motion to compel Domco's Board to reconsider its offer. Its November 14 decision by Justice Susan E. Greer stated that "the control of Domco would not change if the Sommer-Tarkett transaction is completed and that there has been no indirect take-over bid by it of Domco (and) that Domco was not really 'in play'." The Court also concluded that "all of Armstrong's allegations against the Directors are without merit, and that the relief which Armstrong has requested against the Directors should be dismissed." It also stated that: "Armstrong is essentially a bidder, as opposed to a shareholder, and is attempting to cloak its efforts as the champion of minority shareholders."

On December 3, the Court denied Armstrong's leave to appeal this decision.

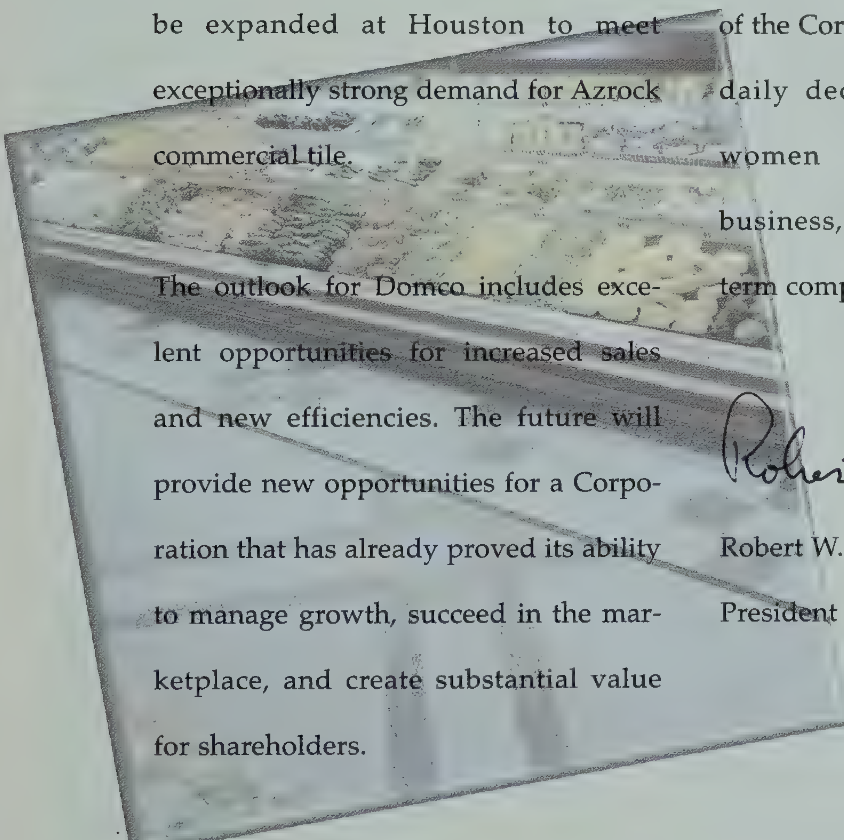
On August 13, the staff of the Ontario Securities Commission decided not to rule on Armstrong's request. The Quebec Securities Commission decided to hold hearings. Hearings started in December, were adjourned twice and are currently set to resume on April 27, 1998.

On November 26, the U.S. Federal Court in Pennsylvania dismissed the Armstrong motion to prevent the Sommer-Tarkett transaction.

Meanwhile, as of December 3, 1997, Sommer Allibert and Tarkett announced the finalization of the transaction to merge their worldwide flooring

activities into a new entity, Tarkett Sommer AG.

In 1998, Domco will continue to expand its product line, and increase its presence in second-tier markets in the United States. Production capacity will be expanded at Houston to meet exceptionally strong demand for Azrock commercial tile.



The outlook for Domco includes excellent opportunities for increased sales and new efficiencies. The future will provide new opportunities for a Corporation that has already proved its ability to manage growth, succeed in the marketplace, and create substantial value for shareholders.

On January 7, 1998, Mr. Jean Milliotte resigned as a Director and Chairman of the Board of Domco. A Director since 1989, and Chairman of the Board since 1995, Mr. Milliotte has been closely involved in the definition and implementation of Domco's development strategy. On behalf of all of his colleagues on the Board and all of the shareholders of Domco, I would like to express our gratitude for his great contribution.

Finally, I wish to express our appreciation to the employees and management of the Corporation. The competence and daily dedication of these men and women are at the heart of this business, and represent its real long-term competitive advantage.

Robert W. Van Buren

Robert W. Van Buren

President and CEO

A LONG TERM GROWTH PLAN

In 1986, when Sommer Allibert of Paris acquired its first stake in the Corporation, Domco had $113 M in sales, including $26 M in exports. Sound and profitable, Domco was nervertheless a one-product company. This situation made the Corporation somewhat vulnerable, especially in a market characterized by increasing globalization. Product line extension appeared as the strategy of choice to accelerate growth and decrease the corporation's exposure to economic cycles.

Domco began looking for suitable partners to form a larger-scale enterprise that would cover the entire Canadian and U.S. market and a full range of resilient flooring products. The first major move was the acquisition of Azrock Industries Inc. in 1991. Azrock, founded in 1912, had established a strong position in resilient commercial flooring, and a strategic partnership was established to market to the residential and commercial flooring markets.

A second major step was the 1994 purchase of National Floor Products Company, Inc., adding the popular Nafco high-end luxury vinyl flooring to the product lines. Also during that year, Sommer Allibert became the majority shareholder in Domco, a partnership that created a greater depth of resources in technology, product development and other areas.

The past four years have seen a careful integration of the three product line organizations, to achieve maximum cross-selling benefits, and to balance production between the different plants for more reliable delivery and efficient use of assets. The product lines also have been filled out with the introduction of new products.

On December 3, 1997, a worldwide merger of the assets of Sommer Allibert flooring activities and Tarkett set the stage for the next phase of growth. The new partnership is a global player, while in North America the expected combination of Domco and Tarkett U.S. would add five plants, fill out the product range, and add new markets for Domco.

1998 Objectives

- Expand manufacturing capacity at the Houston facility.
- Introduce new products.
- Consolidate Domco product ranges targeted to professionally installed floor covering dealers.
- Become the second-largest resilient flooring manufacturer in North America.

REVIEW OF ACTIVITIES

DOMCO RESIDENTIAL SHEET VINYL | AZROCK COMMERCIAL FLOORING | NAFCO LUXURY VINYL FLOORING

1997 ANNUAL REPORT

Three Market Segments
Three Strong Brands

Domco operates dedicated sales and marketing teams in three market segments: residential, commercial, and national accounts. Each of these teams features a range of the Corporation's three product brands: Domco residential sheet vinyl, Nafco luxury vinyl flooring, and Azrock commercial flooring.

Residential

The residential segment features Domco sheet vinyl and Nafco luxury vinyl tile. Domco sheet vinyl is offered in a range of price points that suit both professional installers and do-it-yourselfers.

In 1997, Domco introduced the Nafco branded Augusta Plank and Crestview Plank high performance vinyl wood planking for residential use.

Also in the residential sector, Nafco luxury vinyl flooring enjoys a premium price point and is targeted primarily for professional installation.

Nafco products, manufactured with a proprietary process, closely resemble real wood and other natural materials, and often compete with them in the marketplace.

Commercial

Domco's number one commercial product is Azrock vinyl composition tile (VCT). Its recognized high quality and durability meet the most exacting standards of this market segment, which includes chain stores building and renovating across Canada and the U.S., as well as other prestigious commercial building projects.

Sales of Azrock products continued a rapid pace of growth in 1997, and the Corporation is expanding its manufacturing capacity to meet this demand. Azrock complements the decor of leading retail chains, such as Wal-Mart, Toys"Я"Us, and A&P. Some chains now use Azrock exclusively in their new and remodel construction. The Series 8300 commercial inlaid sheet vinyl flooring for institutions with heavy traffic was introduced to the specification community.
It will be supplemented in 1998 by a product for clean rooms.

Azrock VCT anchors an integrated package of commercial products called the "Azrock Integrated Commercial Flooring System". One of the most extensive lines of commercial products in the North American vinyl flooring industry, it includes Azrock commercial grade sheet vinyl, produced in the Corporation's plant in Farnham, Quebec, and Azrock commercial grade luxury vinyl tile and vinyl wall base, produced in the Corporation's plant in Florence, Alabama. The integrated system includes a selection of products from other leading manufacturers around the world.

The Azrock Integrated Commercial Flooring System is marketed through advertising, trade shows, direct mail, sampling programs, and a commercial sales force serving distributors across Canada and the United States. Domco's 1997 efforts in the commercial segment include the expansion of its team of architectural representatives who call on architects, designers and other building specifiers. These representatives promote the widest possible specification of Domco features and colours, preparing the way for future sales growth.

Streamlining of Products

Certain product lines were streamlined in 1997. Azrock and Nafco wall bases, as well as adhesives and maintenance products, formerly marketed under the Azrock, Domco and Nafco brands, are now sold only under the Domco brand. Thanks to this streamlining, Master Distributors can offer a full product line without unduly increasing their inventory. The Domco maintenance product line now boasts a new polish with a matte satin finish - a first in the industry.

National Accounts

National accounts include major chain stores selling Domco products.

In Canada, increased efforts by Domcor produced a 33% sales growth in this segment.

In the United States, a new group dedicated to this high-growth segment went into action in 1997. The strategy produced results. In the United States, sales in the chain store segment increased by 18%.

Domcor

The Domcor Division is a profitable Canadian wholesale floor covering distribution network, which is vertically integrated with Domco. It is a distributor of the Nafco, Azrock and Domco lines throughout Canada except the Atlantic region, and it is tasked with defending and increasing Domco market share. To be an attractive "full line" flooring supplier, Domcor's line includes related floor covering products, such as Farnham Mills carpeting and Multi-Look Prestige laminated wood flooring by Uniboard Canada Inc.

In 1997, Domcor continued a long-term project of cost reduction through careful structural and personnel changes, while stepping up efforts in personnel training and communications.

Master Distributors and Dealer Alliance:
A Wider and Deeper Presence in the Marketplace

Domco's distribution system now effectively and efficiently covers all of Canada and the U.S., for all three brands. The Corporation signed five new Master Distribution Agreements to enlist strong distribution partners across the United States. The agreements confer rights to sell the full range of Domco products in a geographic area.

5 New Master Distributors, With 17 Distribution Points

Bruce Wholesale:	Indianapolis, Columbus.
Diamond W:	Los Angeles, San Francisco, San Diego, Phoenix and Las Vegas.
Misco Shawnee:	St. Louis, Chicago, Cincinnati, Detroit.
Roth Distributors:	Minneapolis, Denver.
Sound Distributing:	Seattle, Portland, Montana and Northern Idaho.

The changeover to new distribution channels involves a significant cost to establish each partner. This includes diminished sales during the changeover from existing channels, as well as Domco's investment in sales aids and other measures to support its distribution partners.

In 1997, a new generation of store displays was introduced that supports the full Domco product line. The Commander displays maximize cross-selling opportunities involving Nafco luxury vinyl tiles and Domco sheet vinyl, and reinforce Domco's position in the competition for retail showroom space.

The dealer alliance program for Domco sheet vinyl products, "Achieve", also helps Domco establish a rapport with retailers and seeks to ensure the success of Domco's distribution partners. This program helps to motivate sales forces and provide front-line support and training. Domco also seeks close contact with flooring contractors, cooperative groups, and new home builders. Domco's sales and distribution system is currently being fine-tuned to provide greater sensitivity and responsiveness to regional or ethnic preferences on product size, construction, and colour.

Domco's warehouse capacity on the U.S East and West coasts has doubled, as the facilities at Saddle Brook, New Jersey and La Mirada, California were each increased to nearly 7,500 square meters. Each facility can now store about 200,000 cartons of tile. They stock Domco products to be shipped to distributors in their region. Inland regions are served directly from Domco's plants.

Domco plants:
Growing Output, Capacity and Efficiency

Farnham

Higher Efficiency, Lower Environmental Impacts

At Farnham, where Domco sheet vinyl flooring is produced, a $3 million investment in a major process change has netted numerous benefits. The principal mission was to reduce the costs of manufacturing sheet vinyl, a highly competitive field where prices are under great pressure. This was accomplished by switching to ultraviolet curing equipment, resulting in major gains in efficiency and total capacity, through reduction of waste, time required to produce the product, and energy use.

The new equipment is also able to apply an improved wear layer, resulting in a product that offers the consumer better stain resistance and gloss retention, and ease of maintenance. The ultraviolet process also netted environmental benefits by replacing a fossil fuel burning system with one that generates no greenhouse gases. The new system does not generate ground level ozone.

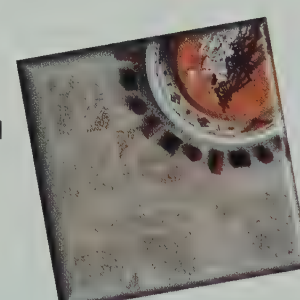
In 1997, for the first time in Domco history, a five-year labour agreement was signed at Farnham. Thanks to this agreement, it is now possible for Domco to maintain operations during the summer vacation period. The Corporation is investing further in Farnham in 1998, to expand its warehousing facility. Farnham will also be producing a new commercial inlaid sheet product. As a result of its 1997 investment program, Farnham's sheet vinyl products now have greater wear and gloss retention.

Houston

Full Speed Ahead to Meet Demand

In Houston, Domco produces Azrock VCT Vinyl Composition Tile used in commercial applications. Demand for these products was very high in 1997. Houston reached 100% capacity, and implemented six and seven day weeks to meet demand.

A new production line was brought on stream in 1995, adding new capacity that was expected to meet needs to 1999. This capacity has "sold out" far ahead of projections. Work began in 1997 on the design of a new production line to be built and completed in 1998. This $6 million investment will provide over 25% more capacity, and should meet demand for the next five years, based on current sales forecasts.



Florence

Major Efficiency Gains

Domco's Florence, Alabama plant produces luxury vinyl tile and wallbase, under the popular Nafco brand. The plant's older equipment represented a significant opportunity to reduce unit costs by modernizing and upgrading.

Over the past two years the plant's Century Project has been automating and improving productivity and product quality. New packaging equipment introduced in 1997 shows a fresher look to the product. It significantly reduces cost of this operation. Further such investments are planned in 1998. In 1997, Domco signed a five-year labour agreement at the Florence plant.

Domco at the point of use:
Driving hard for customer satisfaction.

In 1997, Domco experienced a very high level of customer satisfaction, as Domco continued to reinforce both its product quality and its service.

Domco products and procedures are designed and tested to achieve the easiest and most accurate installation. With its expanded team of installation technicians on the road, every week there is an installation seminar for retailers and distributors somewhere in the Domco sales territory.

Quality in management, quality in product

Domco is determined to lead the industry in the quality of its products, plants and management.

A principal focus of this effort is the International Standards Organization (ISO) process. The ISO 9000 standard certifies that Domco has passed rigorous and independent evaluations of the system we use to manufacture floor coverings.

In 1997, ISO 9001 certification was achieved at Farnham, which became the first and, to this day, remains the only sheet vinyl producer in North America with ISO certification. Houston completed the ISO 9002 process in January 1998 and on February 4, 1998, became the first VCT tile manufacturer to be certified. The Florence plant is expected to complete its ISO 9002 program in 1999.

Effective training and support for installers is a crucial element in Domco's drive for customer satisfaction

New packaging equipment in the Florence plant significantly reduces cost of the packaging process

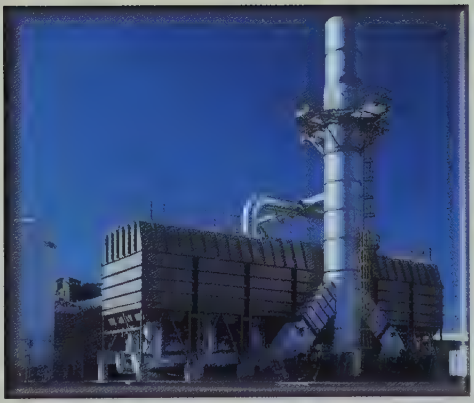
Domco began preparing its strategy to convert its information systems for the Year 2000 in 1996, and implementation of new systems is well under way. The replacement of all of Domco's transactional systems is being accomplished by implementing an Enterprise Resource Planning (ERP) system. The changeover was completed at Houston in November 1997 and at Florence in January 1998, with Farnham expected on line in 1998. The ERP, which covers all of the corporation's major operations, includes the entire business chain from order taking, through production, invoicing and inventory control. With this cornerstone in place, Domco's preparations are moving to the remaining information systems, to assure the Corporation is fully prepared for the Year 2000.

A Responsible Corporate Citizen

Environmental stewardship has been an important issue for Domco for several years. In 1997, at the Farnham plant, after three years of research and planning to identify the most cost-effective pollution control system, the Corporation installed a Regenerative Thermal Oxidizer pollution control system. The $4.5 million system takes all of the plant's hydrocarbon exhausts into a catalytic converter, where they are scrubbed and cleaned, then exhausted as clean air to the atmosphere.

The Farnham plant's other investment program, intended to increase production efficiency, also provided an environmental benefit: it includes a new UV curing process that is more environmentally friendly than the fossil fuel system it replaces, since it causes no greenhouse emissions. There are also no ground level ozone emissions.

$4.5 million for clean air
Environmental stewardship is an important issue for Domco. After three years of research and planning, the corporation invested $4.5 million in a Regenerative Thermal Oxidizer. Thanks to this system, the air used by the Farnham plant is cleaned before being returned to the atmosphere.



Regenerative Thermal Oxidizer

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating results

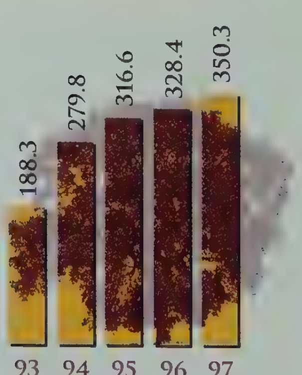
Revenues rose 6.7% in 1997 to reach $350.3 million, as compared with $328.4 million in 1996. Sales of vinyl composition tiles increased by 5.6%, while sales of sheet vinyl increased by 4.7% and sales of Nafco luxury vinyl flooring products increased by 2.8%. Sales of products purchased from other manufacturers were up 27.9% from 1996.

These increases reflect the successful extension of the Corporation's product lines, and the expansion of its distribution system in the U.S. Five new Master Distributors were signed on in 1997, giving Domco increased and more efficient marketing presence in the Midwest and on the U.S. West Coast. As well, Domco added a major U.S. retail chain to the list of those who exclusively use Azrock floor covering in their new and remodeled stores.

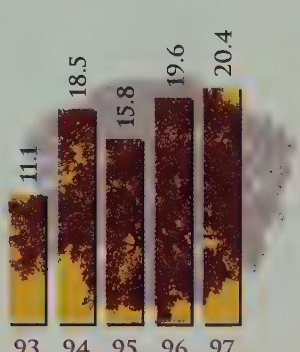
Gross margin represented 36.2% of revenues compared with 39.0% in 1996. The second half of the year was marked by fierce competition in the residential products market, particularly in the middle- and low-range sectors. Our overall gross margin reflects a resulting fall in prices and margins on these products.

Administrative, distribution and selling expenses decreased from $75.8 million in 1996 to $75.1 million in 1997. They represented 21.4% of revenues in 1997 compared with 23.1% in 1996. This progress was achieved despite substantial administrative and legal expenses related to the unsolicited takeover bid made by Armstrong World Industries, Inc. on all outstanding Domco shares, debentures and warrants. The Corporation also incurred certain non-recurring costs, in relation with the addition of new Master Distributors and the termination of a number of small distributors.

Depreciation increased to $8.9 million, from $8.1 million in 1996, reflecting depreciation of investments completed in 1997, mainly in Farnham and Florence.



REVENUES
($ Millions)



NET INCOME
($ Millions)

Amortization of goodwill was $5.3 million, approximately equal to $5.2 million in 1996.

Interest on long-term debt and convertible debentures decreased to $8.5 million from $9.9 million in 1996, due to a decrease in the Corporation's debt following the share and warrants public offering completed in November 1996.

Interest on obligation related to non-controlling interest decreased to $324,000 from $971,000 following the acquisition of the remaining non-controlling interest in Domco Enterprises Inc. on May 5, 1997.

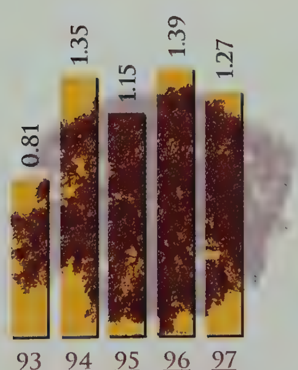
The effective income tax rate decreased to 28.6% from 30.3% in 1996 due to lower tax rates in certain U.S. subsidiaries.

Net income amounted to $20.4 million, compared with $19.6 million in 1996.

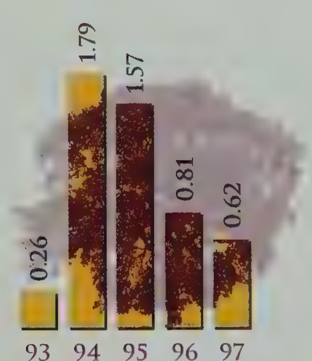
Basic earnings per share were $1.27 in 1997 versus $1.39 in 1996. *Fully diluted earnings per share* amounted to $1.09 in 1997 compared with $1.21 in 1996. These changes are attributed to the increase in the weighted average number of shares outstanding, following the issue of 2.2 million common shares as part of a successful public offering completed in November 1996.

QUARTERLY FINANCIAL INFORMATION (unaudited)
[in thousands of dollars, except per share amounts]

	1997				1996			
	Quarters ended				Quarters ended			
	March 29	**June 28**	**Sept.27**	**Dec. 31**	March 30	June 29	Sept. 28	Dec. 31
	$	**$**	**$**	**$**	$	$	$	$
Revenues	**80,472**	**94,989**	**93,292**	**81,568**	79,799	89,102	87,141	72,380
Net income	**5,150**	**7,143**	**5,437**	**2,632**	4,214	6,020	6,134	3,205
Earnings per share								
Basic	**0.32**	**0.45**	**0.34**	**0.16**	0.31	0.44	0.45	0.19
Fully diluted	**0.27**	**0.37**	**0.29**	**0.16**	0.27	0.38	0.38	0.18



BASIC EPS
($)



LONG TERM DEBT: EQUITY RATIO

Financial Position and Liquidity

The Corporation strengthened its financial position in 1997. *Long-term debt* (including current portion) was reduced to $58.9 million, down 6.0% from $62.6 million in 1996. *Shareholders' equity* increased by 21.8% to $156.3 million or $9.61 per share outstanding as at December 31, 1997, from $128.3 million or $8.06 per share outsanding as at December 31, 1996. More than half (56.7%) of the increase in equity was due to the increase in retained earnings. The remainder was from an increase in deferred translation adjustments and the issue of capital stock following principally the conversion of debentures. As at year-end 1997, Domco's ratio of long-term debt (including current portion and convertible debentures) to Shareholders' equity was 0.62:1, compared with 0.81:1 as at year-end 1996.

Working capital stood at $60.3 million at year-end 1997, versus $54.5 million a year earlier. Working capital increased in spite of the inclusion in current liabilities of a $12.9 million portion of the Corporation's long-term debt payable in 1998, up from $6.2 million a year earlier.

The Corporation's *cash and short-term investments* at year-end 1997 amounted to $1.9 million, compared with $13.6 million a year earlier. This decrease in cash reflects the Corporation's decision to finance from internal resources the repayment of the obligation related to the non-controlling interest in Domco Enterprises Inc.

Domco's operating cash flow, before the net change in non-cash working capital items, amounted to $39.5 million in 1997, compared with $35.1 million in 1996. The net change in non-cash working capital items reflects a use of cash in the amount of $11.3 million in 1997, whereas it had provided cash in the amount of $4.5 million in 1996. As a result, cash provided by operating activities amounted to $28.1 million in 1997, compared with $39.6 million in 1996.

At year-end 1997, the Corporation had available an unused line of credit of $15 million and a credit facility of $15 million available until June 30, 1999. Domco also has available an unused revolving term loan of $28.4 million.

Inventories stood at $62.9 million at year-end, up 16.3% from a year earlier. This increase is required by the expansion of Domco's distribution system in the U.S. and the need to ensure superior service and efficient supply to a greater number of Master Distributors carrying an extended range of products. It is made possible by the substantial increase of the Corporation's warehouse capacity in the U.S.

Prepaid expenses increased to $7.8 million as at December 31, 1997, up from $2.8 million a year earlier. The increase is due principally to the investment made by Domco in sales aids.

Property, plant and equipment increased to $62.4 million at year-end 1997, from $52.7 million a year earlier. This 18.5% rise is the result of subtantial investments made in 1997 as part of a two-year investment program which will increase productivity and capacity in all Domco production facilities, partially offset by the current year depreciation.

Dividends

Domco has a dividend policy whereby dividends are paid on a semi-annual basis. Dividends have been paid in each of the last six years.

In 1997, dividends increased to $4.4 million, from $4.1 million in 1996, as a result of a greater number of shares outstanding following the Corporation's public issue of common shares in late 1996, and of the conversion of debentures in 1997. A dividend of $0.15 per common share was paid on July 2, 1997 and another dividend of $0.125 was paid on December 5, 1997. Dividends paid during 1997 totalled $0.275 per common share, unchanged from the rate paid in 1996.

Capital expenditures

In 1997, capital expenditures amounted to $17.6 million. This included the purchase of equipment, mainly in the Farnham and Florence plants, to increase efficiency and capacity and to minimize the environmental impact of the Corporation's manufacturing operations.

Domco will invest approximately $16 million in 1998, mostly to continue the modernization of the Florence plant and to add a production line in the Houston facility. The Corporation expects to be able to finance its capital expenditure program through cash flow from operations and a portion of its unused credit facilities.

Risks and uncertainties

Cyclicality / Seasonality — The vinyl flooring market is dependent on the level of construction and renovation activities in both the commercial and the residential markets. The commercial market lags the economic cycle by one to two years while the residential market coincides with it. The Corporation has noted that the renovation sector is generally less affected by the economic cycle than the new construction sector. In some instances, particularly in the case of certain high-end products, demand may actually increase during slow economic periods due to consumers deciding to renovate their homes rather than to move.

Currency fluctuations — The current trading value of the Canadian currency is favourable to the Corporation and its business. Any increase in the relative value of such currency opposite the United States currency could have an adverse effect on the Corporation's operations and sales. Sales of Canadian-made products in the U.S. market are naturally hedged to a large extent by the high volume of raw material purchases from the United States.

Competition — The Corporation's products compete against other flooring products in the North American marketplace. In recent years, demand for Domco's resilient flooring has grown faster than the market. This is mainly due to improved quality and better styling, among other factors. There is no guarantee that this trend will continue.

Takeover bid by Armstrong World Industries, Inc. and related matters

During the year, the Corporation was the target of an unsolicited takeover bid by Armstrong World Industries, Inc. For a discussion of this bid and of related developments, the reader is referred to the Message to Shareholders, on page 8 of this report, and to note 16 b) of the consolidated financial statements, on page 39.

The Year 2000

The Corporation relies heavily on information technology in all aspects of its operations. It is therefore critical that all possible risks related to the year 2000 be assessed.

In 1996, the Corporation decided to make the necessary changes to its financial and operations software to ensure that they would function properly in the year 2000 and beyond. To date, new financial software has been implemented which complies with year 2000 requirements. The required changes have been made to the operations software in the U.S. Management expects to complete the software implementation in its Canadian operations in the course of 1998.

A special committee will further assess all operations of the Corporation in connection with the year 2000, identify all remaining relevant issues, if any, and set a detailed agenda to design and implement any needed corrective measures. Management expects that all corrective actions will be in place by the end of the current year. Testing for compliance will be completed in 1999.

Management believes that once the current software changes are completed, the Corporation will have incurred most of the costs related to the year 2000 issue. The computer software acquisition and implementation costs are capitalized and amortized on a straight line basis over a period of five years. All other costs related to the year 2000 issue are expensed as incurred.

Outlook

The outlook for the vinyl flooring industry is positive. Characterized by strong growth and low interest rates, the North American economic environment remains favorable to sustained construction and renovation expenditures, thereby supporting sales of resilient flooring products. While competition is expected to remain intense in the residential products market, particularly in the middle- and low-range sectors, management believes that the Corporation's strategy will provide opportunities for profitable growth. Thanks to its current investment program, Domco is significantly improving its manufacturing efficiency, thus increasing its capacity to generate margins even in very price-competitive market segments. As well, the Corporation is extending its product range and expanding in new market segments where product differentiation allows for better margins.

In 1998, in particular, Domco will complete its two-year investment program, concentrating on the Florence and Houston facilities. It will introduce a significant new product line which should strengthen its position in the sheet vinyl product range.

With an enhanced product range, a strong distribution network now covering all North America, and plants that presently rank among the most efficient in the industry, Domco is poised to continue gaining market share and consistently grow its sales and profitability.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Domco Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles.

When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

The significant accounting policies used are described in note 2 to the consolidated financial statements. Certain amounts in the financial statements are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

Domco Inc. maintains systems of internal accounting and administrative controls which are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and for reviewing and approving the financial statements. The Audit Committee is appointed by the Board, and all of its members are outside directors. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by Ernst & Young, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee.

Robert W. Van Buren

Robert W. Van Buren
President and CEO
April 1, 1998

AUDITORS' REPORT

To the Shareholders of
Domco Inc.

We have audited the consolidated balance sheets of Domco Inc. as at December 31, 1997 and 1996 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Montréal, Canada

February 6, 1998.

Ernst & Young

Chartered Accountants

Domco Inc.
Incorporated under the Canada Business Corporations Act

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

As at December 31

	1997	1996
	$	$
	[in thousands of dollars]	
Assets *[note 8]*		
Current assets		
Cash and short-term investments	**1,942**	13,615
Accounts receivable	**37,005**	36,496
Inventories *[note 4]*	**62,899**	54,077
Prepaid expenses	**7,823**	2,826
Income taxes recoverable	**1,605**	2,420
Deferred income taxes	**1,235**	2,009
	112,509	111,443
Property, plant and equipment *[note 5]*	**62,443**	52,685
Goodwill, net of accumulated amortization	**117,293**	117,592
Other assets *[note 6]*	**6,964**	5,316
	299,209	287,036
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**39,382**	37,458
Obligation related to non-controlling interest *[note 3]*	**–**	13,296
Current portion of long-term debt *[note 8]*	**12,874**	6,168
	52,256	56,922
Long-term debt *[note 8]*	**46,002**	56,450
Deferred income taxes	**7,016**	4,192
Convertible debentures *[note 9]*	**37,684**	41,212
	142,958	158,776
Shareholders' equity		
Capital stock and warrants *[note 10]*	**58,773**	54,812
Retained earnings	**86,815**	70,956
Deferred translation adjustments *[note 11]*	**10,663**	2,492
	156,251	128,260
	299,209	287,036

Commitments and contingencies *[notes 15 and 16]*
See accompanying notes

On behalf of the Board:

Director

Robert W. Van Buren
Director

Consolidated Statements of Income

Years ended December 31

	1997	1996
	$	$
	[in thousands of dollars, except per share amounts]	
Revenues	**350,321**	328,422
Cost of goods sold	**223,598**	200,286
Gross margin	**126,723**	128,136
Expenses		
Administrative, distribution and selling expenses *[note 13]*	**75,118**	75,761
Depreciation	**8,912**	8,143
Amortization of goodwill	**5,330**	5,247
Interest on long-term debt and convertible debentures	**8,540**	9,949
Interest on obligation related to non-controlling interest	**324**	971
	98,224	100,071
Income before provision for income taxes	**28,499**	28,065
Provision for income taxes *[note 14]*		
Current	**4,634**	7,496
Deferred	**3,503**	996
	8,137	8,492
Net income	**20,362**	19,573
Basic earnings per share	**1.27**	1.39
Fully diluted earnings per share	**1.09**	1.21

See accompanying notes

Consolidated Statements of Retained Earnings

Years ended December 31

	1997	1996
	$	$
	[in thousands of dollars]	
Balance, beginning of year	**70,956**	56,321
Net income	**20,362**	19,573
	91,318	75,894
Dividends	**(4,420)**	(4,050)
Adjustment related to conversion of debentures	**(83)**	–
Issue costs [net of deferred income taxes of $497,000] *[note 10]*	–	(888)
Balance, end of year	**86,815**	70,956

See accompanying notes

Consolidated Statements of Changes in Financial Position

Years ended December 31

	1997	1996
	$	$
	[in thousands of dollars]	
Operating activities		
Net income	**20,362**	19,573
Items not affecting cash		
Depreciation	**8,912**	8,143
Amortization of goodwill	**5,330**	5,247
Amortization of deferred financing charges	**790**	802
Amortization of deferred foreign exchange loss (gain)	**288**	(496)
Loss on disposal of property, plant and equipment	**101**	22
Deferred income taxes	**3,503**	996
Non-controlling interest	**324**	971
Other	**(143)**	(173)
	39,467	35,085
Net change in non-cash working capital items related to operations	**(11,325)**	4,485
Cash provided by operating activities	**28,142**	39,570
Investing activities		
Purchase of property, plant and equipment	**(17,565)**	(10,188)
Proceeds on disposal of property, plant and equipment	**83**	212
Deferred translation adjustments	**1,771**	(193)
Cash used in investing activities	**(15,711)**	(10,169)
Financing activities		
Payment of obligation related to non-controlling interest *[note 3]*	**(13,716)**	–
Increase in long-term debt	–	200
Payments of long-term debt	**(6,401)**	(34,937)
Dividends	**(4,420)**	(4,050)
Conversion of debentures into common shares	**(3,528)**	–
Exercise of warrants	**(24)**	–
Issuance of common shares	**3,985**	22,783
Issuance of warrants	–	1,544
Cost of issuance of common shares and warrants	–	(1,385)
Cash used in financing activities	**(24,104)**	(15,845)
(Decrease) increase in cash	**(11,673)**	13,556
Cash, beginning of year	**13,615**	59
Cash, end of year	**1,942**	13,615

For purposes of these statements, cash includes cash and short-term investments.

See accompanying notes

Notes to consolidated Financial Statements
December 31, 1997 and 1996
[Tabular figures in thousands of dollars]

1 Organization and Basis of Presentation

Domco Inc. [the "Corporation"] is a manufacturer and distributor of floor covering products. These consolidated financial statements are expressed in Canadian dollars and include the accounts of the Corporation and of its subsidiaries, including Domco Inc. Floor Products (Texas), Domco Inc. Floor Products (Alabama) and Domco Inc. USA.

Management has determined that the Corporation operates in a single industry segment and that its operations, which exist solely in Canada and in the U.S., form a single geographic segment for reporting purposes. This latter determination is a result of the economic and political similarity of the two countries.

2 Significant accounting policies

The consolidated financial statements of the Corporation have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Inventories

Finished goods and work-in-process are valued at the lower of cost, determined on the first-in, first-out basis, and net realizable value. Raw materials are valued at the lower of cost, determined on the first-in, first-out basis, and replacement cost.

Property, plant and equipment

Property, plant and equipment are recorded at cost, net of applicable government grants and investment tax credits. Depreciation is provided based on the estimated useful lives of the assets on the following basis:

	Methods	Rates
Buildings and improvements	declining balance and straight-line	3% to 10%
Equipment	declining balance and straight-line	7% to 20%

No depreciation is provided for assets under construction.

Notes to consolidated Financial Statements
December 31, 1997 and 1996
[Tabular figures in thousands of dollars]

2 Significant Accounting Policies [Cont'd]

Deferred charges

Charges related to debt financing are deferred and amortized using the effective yield method over the duration of the financing. Other deferred charges are amortized using the straight-line method over their estimated useful lives.

Goodwill

Goodwill, representing the cost of investments in subsidiaries in excess of the fair value of the net identifiable assets acquired, is amortized using the straight-line method over a period of 25 years. The value of goodwill is regularly evaluated by management by reviewing the net recoverable amounts of the related acquired businesses. The net recoverable amount represents the estimated future operating income of the acquired business on a non-discounted basis. Any permanent impairment in the value of goodwill is written off against earnings.

Translation of foreign currencies

The Corporation translates the accounts of its self-sustaining U.S. subsidiaries using the current rate method. All balance sheet items are translated into Canadian dollars at rates of exchange prevailing at the year-end. Revenue and expense items are translated at average rates of exchange prevailing during the year. The resulting net gain or loss is shown under "Deferred translation adjustments" in the shareholders' equity.

The Corporation's net investment in its self-sustaining U.S. subsidiaries is partially hedged by cross-currency interest rate swap agreements. Consequently, the exchange gain or loss and the payments and receipts under these agreements are offset against the exchange loss or gain arising on translation of the financial statements of the foreign subsidiaries included in the separate component of shareholders' equity.

Accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at year-end and non-monetary items are translated at historical exchange rates. Foreign currency transactions are translated at the weighted average rate for the year. Exchange gains or losses are included in the consolidated statements of income, except those related to the translation of long-term debt which are deferred and amortized over its remaining life on a straight-line basis.

Pension costs and obligations

The Corporation and its subsidiaries maintain defined benefit and defined contribution pension plans for the benefit of substantially all employees.

The pension obligations of the defined benefit pension plans are valued using an accrued benefit actuarial method and management's best estimate assumptions. The assets of these pension plans are valued on the basis of market values. Current service costs are expensed in the year. Adjustments arising from past service benefits and experience gains and losses are amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the plans.

Notes to consolidated Financial Statements
December 31, 1997 and 1996
[Tabular figures in thousands of dollars]

2 Significant Accounting Policies [Cont'd]

Income taxes

The Corporation provides for income taxes under the tax allocation basis of accounting whereby income taxes are provided for in the year in which the related income is reflected in the consolidated financial statements. Deferred income taxes result from timing differences between the recognition of income and expenses for income tax and financial statement purposes.

Earnings per share

Basic earnings per share are calculated using the weighted average number of common shares outstanding during the year. Fully diluted earnings per share are calculated on the weighted average number of shares that would have been outstanding during the year had all convertible debentures and common share purchase warrants been converted or exercised into common shares at the beginning of the year (or the date of issuance of these instruments, if later). In making this calculation, the earnings applicable to the common shares have been increased by the interest expense, net of applicable income tax, that was incurred on the convertible debentures and on the long-term debt that would be repaid from the net proceeds resulting from the exercise of the warrants.

Convertible debentures

The debentures are convertible into common shares of the Corporation at the holders' option. The fair value of the debenture holders' conversion option at the inception date was not significant. Consequently, management has not presented the value of the conversion right separately in shareholders' equity on the consolidated balance sheets.

3 Non-Controlling Interest

Pursuant to an agreement entered into on July 26, 1996, Domco Enterprises Inc., a U.S. subsidiary, agreed to purchase on May 5, 1997 the remaining non-controlling interest in Domco Enterprises Inc. for a cash consideration of US $9.9 million [CDN $13.7 million]. Accordingly, the obligation related to the non-controlling interest was carried at the present value of its retraction value.

4 Inventories

	1997 $	1996 $
Raw materials	**6,127**	4,795
Work-in-process	**2,099**	1,906
Finished goods	**54,673**	47,376
	62,899	54,077

Notes to consolidated Financial Statements
December 31, 1997 and 1996
[Tabular figures in thousands of dollars]

5 Property, Plant and Equipment

	1997		1996	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
	$	$	$	$
Land	**3,194**	–	3,072	–
Buildings and improvements	**24,298**	**9,251**	21,466	8,293
Equipment	**109,560**	**69,286**	95,034	62,027
Assets under construction	**3,928**	–	3,433	–
	140,980	**78,537**	123,005	70,320
Accumulated depreciation	**78,537**		70,320	
Net book value	**62,443**		52,685	

6 Other assets

	1997	1996
	$	$
Deferred financing charges, net of accumulated amortization	**1,303**	2,211
Deferred foreign exchange loss, net of accumulated amortization	**2,548**	177
Cash surrender value of life insurance	**1,458**	1,379
Other	**1,655**	1,549
	6,964	5,316

7 Bank indebtedness

The Corporation has an unused line of credit of $15 million or the equivalent in U.S. dollars, bearing interest at the bank's base rate, the LIBOR rate plus 0.45% or the bankers' acceptance rate plus 0.45% *[see note 8]*.

Notes to consolidated Financial Statements
December 31, 1997 and 1996
[Tabular figures in thousands of dollars]

8 Long-term debt

	1997 $	1996 $
[a] US $45 million term bank loan, payable in ten semi-annual instalments of US $4.5 million commencing on September 30, 1997. The loan bears interest at the United States Base Rate ["USBR"] plus 0.20% or the LIBOR rate plus 0.70% [US $40.5 million as at December 31, 1997; US $45 million as at December 31, 1996].	**57,935**	61,677
[b] Interest-free loan from Société de développement industriel du Québec ["SDI"] payable in five annual instalments of $188,160 commencing in September 2002.	**941**	941
[c] Credit facility of $15 million or the equivalent in U.S. dollars, bearing interest at the bank's base rate plus 0.125%, or LIBOR plus 0.65%, or the bankers' acceptance rate plus 0.65%. The credit facility remains available to the Corporation until June 30, 1999.	**–**	–
	58,876	62,618
Less current portion	**12,874**	6,168
	46,002	56,450

In addition to the unused credit facility described in [c] above, the Corporation also has available an unused revolving term loan under a credit facility of $28.4 million [1996 – $34.2 million] or the equivalent in U.S. dollars. The credit facility decreases quarterly by $1,450,000 until September 30, 2000, and the balance of $12,450,000 matures on December 31, 2000. The loan bears interest at the bank's base rate plus 0.35%, the LIBOR rate plus 0.80% or the bankers' acceptance rate plus 0.80%.

The loan under [a] and the unused credit facilities described above and in note 7 are collateralized by a negative pledge on all the assets of the Corporation and its subsidiaries.

The terms of the credit facilities require that certain financial and non-financial covenants be met by the Corporation. These include the maintenance of certain financial tests and ratios and certain restrictions and limitations, including those on the amount of capital expenditures and amount of dividends paid by the Corporation. Management considers that respecting these covenants will not affect normal operations.

Notes to consolidated Financial Statements
December 31, 1997 and 1996
[Tabular figures in thousands of dollars]

8 Long-term debt [Cont'd]

During 1994, the Corporation entered into an interest rate cap agreement by which the LIBOR floating interest rate on US $35 million was effectively capped at 7% to May 11, 2000. The remaining notional amount of US $17.5 million decreases quarterly by US $1.25 million until May 1999, and by US $2.5 million each quarter thereafter.

Payments required in the next five years are as follows:

	$
1998	12,874
1999	12,874
2000	12,874
2001	12,874
2002	6,627
	58,123

9 Convertible debentures

In April 1995, the Corporation completed a public offering of $41,212,000 of unsecured 8.5% Convertible Subordinated Debentures which mature on April 15, 2005. The debentures are convertible, at the option of their holders, into common shares of the Corporation at any time prior to April 15, 2005 at a conversion price of $11 per common share, representing a rate of 90.91 common shares for each debenture, with a principal amount of $1,000, subject to adjustment in certain events. The maximum number of common shares issuable pursuant to the conversion of the debentures outstanding as at December 31, 1997 is 3,425,818 [1996 – 3,746,545]. The debentures are redeemable at the Corporation's option, after April 14, 1998 and prior to April 15, 2000, only if the quoted market value of the Corporation's common shares is greater than $13.75 per share. Thereafter, the debentures are redeemable by the Corporation at their nominal value plus accrued and unpaid interest.

During 1997, debenture holders converted debentures with a principal amount of $3,528,000 [1996 – nil] into 320,718 common shares at a conversion price of $11 per common share.

10 Capital stock and warrants

[a] Authorized

Unlimited number of common shares.

1,779,100 warrants to purchase common shares of the Corporation at $11.00 per common share on or before November 6, 1998, after which date the warrants become null and void. The Corporation reserved for issuance from treasury sufficient common shares to satisfy the rights attached to the warrants.

Notes to consolidated Financial Statements
December 31, 1997 and 1996
[Tabular figures in thousands of dollars]

10 Capital stock and warrants [Cont'd]

[b] Issued and outstanding

		1997	1996
		$	$
16,265,749	common shares [1996 – 15,909,016]	57,253	53,268
1,519,667	warrants[1] [1996 – 1,544,000]	1,520	1,544
		58,773	54,812

[1] In addition, pursuant to a warrant indenture, 216,533 warrants [1996 – 220,000] entitle the holders thereof to acquire common shares delivered and pledged by a shareholder.

[c] Summary of common share transactions

	Number of shares	Amount
		$
Balance, December 31, 1995	13,739,216	30,485
Shares issued upon a public offering	2,169,800	22,783
Balance, December 31, 1996	15,909,016	53,268
Shares issued upon:		
Conversion of debentures	320,718	3,528
Exercise of warrants	24,333	292
Share purchase plan	11,682	165
Balance, December 31, 1997	16,265,749	57,253

[d] Issue of shares and warrants

In November 1996, the Corporation completed a public offering of 3,528,000 units, each unit consisting of one common share and one-half of a common share purchase warrant, of which 2,169,800 common shares and 1,764,000 warrants were issued and sold by the Corporation and of which 1,358,200 common shares were sold by way of a secondary offering, at a price of $11.00 per unit [$10.50 per share and $0.50 per half warrant]. Of the 1,764,000 warrants issued and sold by the Corporation, 1,544,000 warrants entitle the holder thereof to acquire common shares from treasury and 220,000 warrants entitle the holder thereof to acquire common shares delivered and pledged by a shareholder. The gross proceeds for the Corporation, before deduction of the underwriters' fee and issue costs, amounted to $22,782,900 and $1,544,000 for the common shares and warrants, respectively.

On November 18, 1997, 27,800 [1996 – nil] warrants were exercised. Pursuant to the warrant indenture, 24,333 common shares were issued from treasury for a cash consideration of $267,663 and 3,467 common shares were delivered by a shareholder.

Notes to consolidated Financial Statements
December 31, 1997 and 1996
[Tabular figures in thousands of dollars]

10 Capital stock and warrants [Cont'd]

[e] Long-term incentive plan

On May 15, 1997, the shareholders of the Corporation approved a long-term incentive plan [the "Plan"] for its senior executives. The Plan is composed of a share purchase plan and options to purchase common shares of the Corporation.

According to the terms of the share purchase plan, each eligible executive under the Plan will be entitled to purchase a number of common shares of the Corporation over a five-year period as a function of base salary at a price equal to 95% of the weighted average price of the common shares on the Montréal and Toronto stock exchanges during the five consecutive days prior to the purchase date. The maximum number of common shares that may be issued pursuant to the share purchase plan will not exceed 90,000.

On May 30, 1997, 11,682 common shares were issued pursuant to the share purchase plan for a cash consideration of $165,417.

In addition, the Board may from time to time grant options to purchase common shares of the Corporation to eligible executives. The options may be exercised at the average closing price of the common shares on the Montréal and Toronto stock exchanges on the last business day before the date of the grant. The right to exercise the options is acquired gradually over a period of five years and the options can be exercised at all times up to seven years after they have been granted. The maximum number of common shares that are issuable under the Plan following the exercise of options granted will not exceed 450,000.

As at December 31, 1997, no options were issued.

[f] Stock split

On January 26, 1996, the Board of Directors declared a two-for-one stock split, effected in the form of a stock dividend, payable on February 9, 1996 to shareholders of record on February 6, 1996. All references in the consolidated financial statements to shares outstanding and per share amounts, including comparative figures, reflect this stock split.

11 Deferred translation adjustments

	1997	1996
	$	$
Balance, beginning of year	**2,492**	1,711
Translation adjustments for the year resulting from a change in U.S.–Canada exchange rates	**8,171**	781
Balance, end of year	**10,663**	2,492

Notes to consolidated Financial Statements
December 31, 1997 and 1996
[Tabular figures in thousands of dollars]

12 Pension plans

Based on actuarial valuations of the defined benefit pension plans, the estimated present value of accrued pension benefits as at December 31, 1997 was $8,976,000 [$7,360,000 as at December 31, 1996] and the market value of the assets in these plans was estimated at $10,257,000 [$6,990,000 as at December 31, 1996].

The principal assumptions used by management in determining net periodic expense and the actuarial value of benefit obligations were:

Discount rate	7.4% [7.5% in 1996]
Compensation increases	4.0%
Investment return	8.0%

Variances between such estimates and actual experience, which may be material, are amortized over the employees' average remaining service lives.

13 Administrative, distribution and selling expenses

Administrative, distribution and selling expenses include the following amounts:

	1997	1996
	$	$
Research and development expenses	**1,859**	1,715
Investment tax credits and government grants	**(377)**	(275)

14 Income taxes

The effective income tax rates differ from the Canadian federal-provincial statutory income tax rates due principally to the following reasons:

	1997		1996	
	$	%	$	%
Income taxes calculated at statutory rates	**11,246**	**39.5**	10,996	39.2
Increase (decrease) resulting from:				
Manufacturing and processing deductions	**(118)**	**(0.4)**	(103)	(0.4)
Lower tax rates for U.S. subsidiaries	**(3,105)**	**(10.9)**	(2,713)	(9.7)
Non-deductible interest on obligation related to non-controlling interest	**128**	**0.5**	380	1.4
Other	**(14)**	**(0.1)**	(68)	(0.2)
	8,137	**28.6**	8,492	30.3

Notes to consolidated Financial Statements
December 31, 1997 and 1996
[Tabular figures in thousands of dollars]

15 Commitments

The Corporation is committed under operating leases for premises and equipment which require future minimum annual rental payments as follows:

	$
1998	3,628
1999	2,313
2000	1,654
2001	1,124
2002	769
Thereafter	3,345
	12,833

16 Contingencies

[a] In March 1996, a judgment was rendered against the Corporation by a U.S. court for US $1.15 million [CDN $1.6 million] following a lawsuit instituted against the Corporation in 1993 by one of its former distributors. Management has been advised by their legal counsel that the Corporation has a valid defence to offer. Management intends to vigorously contest the judgment and has appealed the case to the Iowa Supreme Court. Since the final outcome of this claim is uncertain, and the potential effect, if any, upon the Corporation's consolidated financial position has not been determined, no provision has been recorded in the accounts of the Corporation as at December 31, 1997.

[b] On June 23, 1997, Armstrong World Industries Inc. ("Armstrong") commenced an action in the Ontario Court (General Division) against the directors of the Corporation seeking declaratory relief and damages in the amount of $50 million, claiming that the directors of Domco acted improperly in dealing with Armstrong's takeover bid. Although, the action is still at a preliminary stage, Armstrong did apply to the Court for interlocutory injunctive relief. This application was dismissed by the Court on November 14, 1997 on the basis that there was no evidence that the directors did not act properly and in good faith. Armstrong brought a further application for leave to appeal this decision. This application was also dismissed by the Court on December 3, 1997. Pursuant to Domco's By-laws, the Corporation could be liable to indemnify the directors for any amounts they may be required to pay to Armstrong in the event the Court ultimately makes such an order following a trial. It is the opinion of management, based on advice and information provided by legal counsel and the above judgments, that it appears unlikely that Armstrong will succeed in its claim for damages against the directors of Domco. Accordingly, no provision has been recorded in the accounts of the Corporation as at December 31, 1997.

Notes to consolidated Financial Statements
December 31, 1997 and 1996
[Tabular figures in thousands of dollars]

16 Contingencies [Cont'd]

[c] In the normal course of operations, there are pending claims by and against the Corporation. In addition, one of the Corporation's subsidiaries has been named codefendant in asbestos-related lawsuits involving personal injuries and property damage claims. It is the opinion of management, based on the advice and information provided by its legal counsel, that final determination of these cases will not materially affect the Corporation's consolidated financial position or results of operations.

17 Financial instruments

[a] Fair values

	1997		1996	
	Carrying Amount $	Fair value $	Carrying Amount $	Fair value $
Financial assets				
Short-term financial assets	38,947	38,947	50,111	50,111
Interest rate cap agreement	–	14	480	132
Cross-currency interest rate swaps	–	4,349	–	4,814
Financial liabilities				
Short-term financial liabilities	39,382	39,382	50,754	50,754
Long-term debt	58,876	58,535	62,618	62,262
Convertible debentures	37,684	43,741	41,212	46,027

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practicable to estimate a value are as follows:

Short-term financial assets and liabilities

The carrying amounts of these assets and liabilities, which comprise cash and short-term investments, accounts receivable, accounts payable and accrued liabilities and the obligation related to the non-controlling interest, are a reasonable estimate of the fair values because of the short maturity of those instruments.

Interest rate cap agreement

Quotes from the Corporation's bankers were used for determining the fair value.

Long-term debt

The carrying amount of the Corporation's floating-rate long-term debt approximates its fair value because of its floating rate nature and because the debt, denominated in U.S. dollars, is translated using the reporting date exchange rate.

The fair value of the SDI loan is based on estimated future cash flows discounted using the current market rate for debt of the same remaining maturities, as advised by the Corporation's bankers.

Notes to consolidated Financial Statements
December 31, 1997 and 1996
[Tabular figures in thousands of dollars]

17 Financial instruments [Cont'd]

Convertible debentures

The fair value of the convertible debentures is based on estimated future cash flows discounted using the current market rate for debt of the same remaining maturity.

Cross-currency interest rate swaps

The fair value of derivative financial instruments was based on quotes from the Corporation's bankers and generally reflects the estimated amounts that the Corporation would receive or pay to terminate the contracts at the reporting date.

[b] Credit risk

Accounts receivable

The Corporation sells products to customers primarily in Canada and the United States. Concentration of credit risk with respect to trade receivables is limited due to a significant number of customers comprising the Corporation's customer base and their distribution across different geographic areas. As at December 31, 1997 and 1996, no customer accounted for more than 10% of total trade receivables.

18 Derivative financial instruments

The Corporation expects to have significant future cash flows in U.S. dollars from its self-sustaining foreign operations. In order to reduce its exposure to changes in the exchange rate of the U.S. dollar as compared to the Canadian dollar, the Corporation entered into two ten-year cross-currency interest rate swap agreements in April 1995. The effect of these agreements is to create a US $28,661,850 financial liability at a rate of Cdn $1.3775 to US $1.00. Under the terms of the swap agreements, interest is payable at 8.2% on US $14,330,925 and at LIBOR plus 0.89% on US $14,330,925.

19 Comparative figures

Certain of the comparative figures have been reclassified to conform to the presentation of the 1997 consolidated financial statements.

BOARD OF DIRECTORS

▲ **Robert Arcand**
President
Financière Harricana Inc.

● **André Bégin**
Partner
Lette & Associés, Lawyers

● **John B. Claxton, Q.C.**
Counsel
Lafleur Brown, Lawyers

Michel Cognet
General Manager
Sommer Allibert

▲■ **Claude Lemire**
Vice President U.S. Equities
Canagex Associates Inc.

■ **Alphonse Lepage**
Director

Fernando E. Stroppiana
President
Mondo S.p.A.

Robert W. Van Buren
President and Chief Executive Officer
Domco Inc.

▲●■ **Lars Wisén**
President
Tarkett Sommer AG

▲ **Member of the Audit Committee**
● **Member of the Corporate Governance Committee**
■ **Member of the Compensation Committee**

MANAGEMENT

Lars Wisén
Chairman of the Board

Robert W. Van Buren
President and Chief Executive Officer

Robert O. Desautels
Treasurer, Senior Vice President Finance and Chief Financial Officer

John Gallo
Senior Vice President, Operations

Jack R. Lee
Senior Vice President, Commercial Development

Danièle Béliveau
Corporate Secretary and Legal Counsel

Richard N. Blue
Senior Vice President Sales and Marketing

Jean-François Courtoy
Vice President, Research and Development

Gilles de Beaumont
Vice President and General Manager
Domcor

Robert F. Sheehan
Vice President, Quality Assurance and Installation Service

HEAD OFFICE	1001 Yamaska East Farnham, Quebec J2N 1J7	(514) 293-3173	(514) 293-6644
DOMCO INC. USA **Sales and Marketing Administrative Centre**	4103 Parkway Drive Florence, Alabama 35630	(256) 766-0234	(256) 765-8131
PLANTS DOMCO INC. **Domco® Residential Sheet Vinyl**	1001 Yamaska East Farnham, Quebec J2N 1J7	(514) 293-3173	(514) 293-6644
DOMCO PRODUCTS TEXAS, L.P. **Azrock® Commercial Flooring**	1705 Oliver Street Houston, Texas 77007-3821	(713) 869-5811	(713) 864-9158
DOMCO INC. FLOOR PRODUCTS **(Alabama)** **Nafco® Luxury Vinyl Flooring**	430 County Road 30 Florence Industrial Park Florence, Alabama 35630	(256) 766-0235	(256) 718-5227
WAREHOUSES	14380 Industry Circle La Mirada, California 90638	(714) 739-0720	(714) 739-0634
	95 Mayhill Street Saddle Brook, New Jersey 07663	(201) 587-9411	(201) 587-9606
DOMCOR **Quebec**	6150 des Grandes Prairies Saint-Leonard (Montreal) H1P 1A2	(514) 322-7934	(514) 328-9601
	2665 Dalton St. Sainte-Foy (Quebec City) G1P 3S8	(418) 651-3317	(418) 651-6902
Ontario	3545 Nashua Drive Mississauga L4V 1R1	(905) 677-7311	(905) 677-4193
Manitoba	1310 Mountain Avenue Winnipeg R2X 3A3	(204) 633-8407	(204) 694-7135
Alberta	15432 - 114th Avenue Edmonton T5M 3S8	(403) 453-6693	(403) 452-6901
British Columbia	2471 Simpson Road Richmond (Vancouver) V6X 2R2	(604) 270-1175	(604) 270-9154

GENERAL INFORMATION

ANNUAL MEETING
The Annual Meeting of Shareholders will be held at 11:00 a.m. on June 18, 1998 at the Salon Pierre-de-Coubertin of the Westin Mont-Royal Hotel, 1050 Sherbrooke West, Montreal.

TRANSFER AGENT AND REGISTRAR
General Trust of Canada,
Montreal and Toronto

Domco securities are traded on the Montreal and Toronto stock exchanges under the symbols:
DOC - common shares
DOC.DB - convertible debentures
DOC.WT - warrants

AUDITORS
Ernst & Young

A copy of the Annual Information Form will be available to the shareholders upon written request to the Corporate Secretary, at the Corporate Office in Farnham.

Si vous désirez recevoir ce rapport en français, veuillez adresser votre demande à la secrétaire générale, au siège social à Farnham.

Legal deposit 2nd quarter 1998

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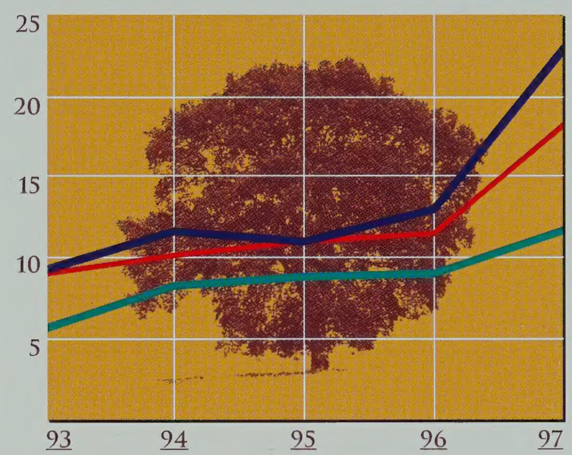
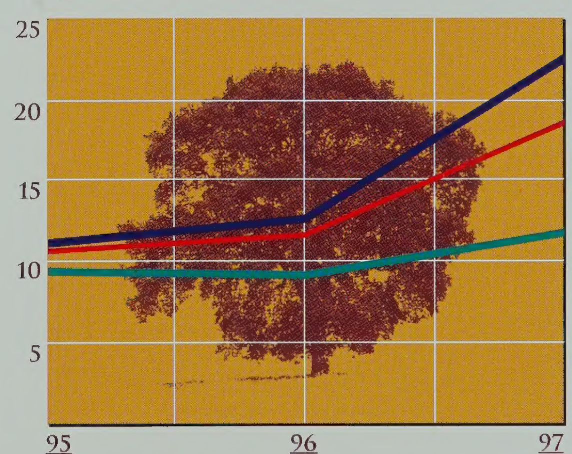


MONTREAL EXCHANGE
Market value/share



TORONTO STOCK EXCHANGE
Market value/share

High
Low
Close

Printed in Canada